the
Freeman
Ideas on Liberty

DECEMBER 1983

Index 1983

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by Ludwig von Mises

This 1944 classic clearly distinguishes between bureaucratic management and profit management.

The author does not condemn bureaucracy per se. He shows where it is useful and necessary. But then he sets out in bold relief where bureaucracy is a disaster—when it substitutes government action where private enterprise ought to prevail.

The long conflict between individualism and collectivism continues to divide mankind into two hostile camps. Today many advocates of omnicompetent government are less sure of themselves. Thus, at long last, this prophetic look at the contrast between bureaucratic and business management could have its day.

Ludwig von Mises (1881–1973) was the internationally acclaimed exponent of the Austrian School of Economics and is the author of a shelf of major books dealing with economic theory and social practice.

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Ernest G. Ross

THE TWO FACES OF RISK

ASSESSING RISK these days is a risky business. In times when we are deregulating our economy, are we to assume that risk will be increasing—or decreasing? Should we expect that businessmen will face greater risk—or lesser? Will the "dog-eat-dog" world of purer capitalism force entrepreneurs to take more dangerous chances than under a controlled economy—or more benign ones? In short, how do we judge the importance of risk in our future?

Judging anything requires that one start with a standard. Judging without one is like measuring without a common unit. What can we use as a unit of risk-measurement, as our standard for judging risk?

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

Risk means the possibility of losing something of value. If so, our standard involves the pursuit of values. Economically, a value is anything an entrepreneur wishes to obtain or retain in the marketplace. (This is the Austrian School of economic values—which says that individuals *create* their own values by the choices they make—i.e., that values do not exist independent of man's decisions and actions.)

What is the condition of the marketplace which *most* enhances one's ability to obtain or retain values—for instance, to start a new business, to create new goods and services, to secure new markets, to earn a profit? What is the condition which offers the greatest number of opportunities to pursue one's goals? It is, of course, *freedom*—the condition of

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human action which exists in a society when only the first-use of force (or its threat) and fraud are outlawed.

Minimizing Risk

When only coercive or fraudulent activities are forbidden, all else is open to entrepreneurial pursuit—in other words, open to all of us, for in a free society because we must make our own economic decisions and take our own economic actions we are all entrepreneurs. In a most fundamental sense, freedom gives us the greatest number of options for gaining and preserving any economic values we might choose to pursue or defend. In the widest view, *when options are maximized, risk is minimized.* This is *not* the conventional view, which holds that freer people face *greater* risks.

Examine the point from another angle—from the angle of a controlled economy or an anarchistic one where the first-use of force and fraud are *not* outlawed. What happens to one's options for obtaining or retaining his values then?

The essential economic characteristic of societies which accept force and fraud is that markets do not have to be earned, merely *taken.* Consider monopolies. Monopolists can both gain and secure their markets by compulsory laws of all types forbidding others from selling or dealing within a specified territory or in a specified category of goods and services—or, in the case of anarchies, by intimidation ("Buy from us—or else!")!

This internal protectionism favoring the force-wielders' business friends drastically restricts one's market opportunities and his options for minimizing the possibility of losing his values—for minimizing risk.

Because in controlled societies most if not all categories of economic activity are restricted, openings for entrepreneurs are severely constrained. One cannot initiate new economic action when nearly every field of endeavor is locked up and coercively protected for the politically favored and powerful.

Now under such conditions, because nearly everyone is also "guaranteed" a job (or forced to take one), it may appear that most men are working under risk-minimized conditions. But that is illusion. There is no greater risk to a man than to be totally at the mercy of coercive masters. The illusion of risk reduction masks the reality of absolutely enormous risk—the risk of being found "out of favor" with the state and thus deprived of means of self-support, a deprivation which can amount to a sentence of slow death, or at best, abject poverty.

The only persons who operate at minimized risk in a controlled society are the controllers—but only so

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long as they hold the reins. The beast of coercion is difficult to ride. That is why a controlled economy is characterized by a constant, deadly power struggle—a *truly* "dog-eat-dog" society!

In judging risk, it is crucial to distinguish between risk *magnitude* and risk *diversity*.

Risk magnitude is highest in compulsion-based economies where the state lowers not only the responsibility but the opportunity for preserving life itself. Risk diversity is greatest in a free economy where each man is accorded not only the most options for success, but for failure as well. The difference is that failure under freedom is followed by the same opportunities for success which existed before the failure. In a controlled economy, failure is punished by total loss of opportunity—one is "locked out" of the system and perhaps permanently marked as a failure; in a free economy, failure means only that one has failed *this* time—while the door remains open to all future options for achievement.

Another way of putting this point would be that in heavily regulated economies there may be fewer risks to take, but each risk is more dangerous.

Of course, it is also possible to take dangerous risks in a free society—but the dangers are *cushioned*: (a) One is not forced to take such risks; (b) he can often earn high rewards for severe risks; (c) he can (although sometimes at substantial cost) buy insurance in order to ease the impact which failure might have on himself or his family; (d) except for death, he will never be completely locked out of further opportunities to better himself.

Thus, a free economy's dangerous risks are voluntary, compensatory, insurable, and limited; in unfree economies the same level of risk is "built-in" to the system—involuntary, not justly compensated, uninsurable, and unlimited (except by death).

How Attitudes Are Affected

Naturally, these differences of dangerous risk magnitude depend greatly on *how* free or controlled an economy is. We live in a system which, like many modern ones, is a mixture of both. However, for the sake of clarity, let us briefly examine the "human" effects of the two faces of risk, risk in a fully free society and risk in a totally controlled one—i.e., how does each type of risk affect individual attitudes and behavior?

First the bad news.

The attitude toward risk in a controlled economy is, "Don't take chances!" One can see why. To take a chance is to take one's life in his hands—to risk losing all of the benefits of society if his superiors frown

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upon his thoughts, decisions, or actions. In effect, the *price* of risk in a controlled economy goes far too high for most people to afford. As a result, except for the risks which the state mandates on the individual (such as compulsory employment), he is either prone to stagnation—or enters politics, the only arena in which the high price of risk may appear justified in society's "approved" channels of operation.

(The underground economy, the primary unapproved channel, is almost always a third option. But it, too, is dangerous, sometimes penalized by execution, and almost always carrying stiff prison or labor camp terms. It is not uncommon for the average citizen to dabble in the underground economy—but most do not choose steady or deep involvement because the risks are too dangerous. This is especially true in controlled economies where the state has "turn in your neighbor" spy systems—as in the modern Soviet state.)

If the citizen chooses the political road to success, he must, in effect, choose between being dominated or dominating. To use the vernacular, he must either "go with the flow"—or control the flow. The important point here is that in either case—whether one chooses to play serf or master—he will encounter much greater repercussions for risk-taking than will the citizen of a free nation.

High risk magnitude results in the controlled citizen being a less productive one. Risk-taking is essential to productivity because innovation requires risk. Only innovation leads to new machinery and other labor-saving technology which can improve productivity. Raise the price of risk too high and you also prohibitively raise the price of productivity. (This, incidentally, is one reason why controlled societies bribe, steal, and cajole to obtain new technology—their systems effectively inhibit the native risk-taking necessary to produce their own high technology.)

The burdensome cost of risk in a controlled economy also limits the variety of jobs available to the average citizen. When innovation and productivity are stifled, the state economy must employ more people fulfilling the "basic" needs (food, clothing, shelter, energy)—which necessarily decreases the number of people employable in other lines of work. And because low-productivity jobs (often called "labor intensive" in American political circles) on balance require less knowledge and less mental challenge, these jobs involve more drudgery.

When risk is constantly too severe, a terrible thing also happens to the spirit of a people—they lose their buoyancy, their lust for life. They become victims of a perpetual undercurrent of fear and apprehen-

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sion—which in turn erodes their self-esteem. Without self-esteem, without the feeling that life is worth living because one can take risks with a good chance of being rewarded, no nation's citizens can maintain a truly human spirit. Their psychology becomes a twisted thing, defeated and deformed, the kind of spirit that views life not as a series of opportunities—but as a minefield. (This is perhaps why a common foreign observation about the freest citizens of the world, Americans, is: "They are so optimistic—and so unafraid!")

Personal Initiative Stifled, Anxiety Takes Control

There are other effects of the heavy risk level in controlled economies—such as fewer consumer products, a lowering of the quality of all goods and services, an increased driving of economic activity underground with attendant official corruption, and so on—but the two most important effects are to stifle personal initiative and breed anxiety.

The good news, of course, is that the free society type of risk does all of the opposite things:

(1) It encourages people to take risks, to "Go for it!"—to progress rather than stagnate; and because the rewards for private market risk-taking are so great, it discourages power-seeking. (After all, when one is already his own master, what real incentive does he have to dominate others in order to enhance his self-preservation?)

(2) It generates productivity to the greatest degree because people *want* to innovate in order to maximize personal satisfaction and material gain—i.e., happiness.

(3) It creates a fantastic variety of jobs and business opportunities because the risk-taking-induced productivity frees so many people from working in the basic needs industries. (As a dramatic illustration of this, look at the gargantuan size of the U.S. entertainment industry—films, video tapes and games, books and magazines of all types, television and radio, cable, music, sports, and on and on—as compared to the almost nonexistent entertainment industry of the Soviet Union.)

(4) And, as earlier touched upon, it nurtures a love of life, an optimism, a sense of self-esteem, and a spirit of opportunity-seeking.

So, to answer our original question—as we move toward a less-regulated economy, should we expect risk to increase or decrease?—there are two parts: First, the sheer *numbers,* the variety, of available risk will be more. But, second, the *severity,* the dangerous magnitude, of risk will be less. As our society becomes more free, there will be more opportunities to fail, but we will broaden our opportunities to rise again when we fall—and risk will become less risky!

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Henry Hazlitt

Economic Forecasting: How Good Is It?

A professor of one of the physical sciences at a large university recently wrote me to ask whether "scientific" prediction, precise and certain, is possible in economics. My reply follows:

The answer is No. And from the very nature of the science it never will be.

The main purpose of economics is not to predict the future, but to learn what policies are likely to improve that future. Sound economists already know a good deal about those policies, and have known much of it ever since the appearance of Adam Smith's *Wealth of Nations* in 1776. The best policies for a country are to maintain a sound currency system (which historically has meant the gold standard), to keep the politicians from inflating and printing inconvertible paper money, and to keep the government from interfering in the economy except to prevent violence, theft and fraud.

Yet we are all individually obliged, in every action we take—whether choosing a career, applying for a job, marrying, having children, buying a house, buying a car, making an investment—to speculate on the future. And the more informed and sensible we are, the better our guesses are likely to be. But we must resign ourselves to living in a world of uncertainty. We can never eliminate the gambling element, the element of sheer chance.

Economics *is* a science, but it is a science with its own special nature,

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Henry Hazlitt, a frequent contributor to *The Freeman*, has a long and distinguished career as an economist, journalist, editor, and literary critic. Best known of his numerous books is *Economics in One Lesson*, originally published in 1946 and translated into ten languages with sales of more than 700,000 copies. The recently revised edition is once more available in inexpensive paperback.

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purposes, and methods. It is a common error to dismiss it as a pseudoscience because it does not employ the same methods or produce the same results as the physical sciences. The physical sciences have been built up partly by deductive reasoning, but mainly by observation, by induction and statistics, and by actual experiment. Economics has been built up mainly by deductive reasoning, though of course it requires observation and detailed knowledge of business processes and of what people do to make a living. Isolable economic experiments, in any scientific sense, are impossible and unnecessary. Economics is the study of human action and human choice.

The Possibility of Dependable Prediction

Let us come now to the possibility of dependable prediction. Such prediction is usually most explicitly made in the choice of an investment. The future of the stock market, and attempts to predict it, make an ideal microcosm for study.

The prices on today's New York Stock Exchange represent the composite estimates of millions of stockholders all over the world concerning the individual values of the more than 2,000 issues listed there. These estimates do not necessarily reflect the most recent reported earnings of the corporations concerned, but the assumptions and individual fragments of knowledge of the millions of different stockholders, and above all their composite *expectations* regarding the future of these corporations.

(As to the number of people involved daily in the stock market, there are more than 30 million holders of American stocks, the daily transactions on the New York Stock Exchange averaged 65,000,000 shares in 1982, and the average transaction was 1,306 shares. So on the assumption of at least two persons involved in each transaction—a buyer and a seller—there were some 100,000 persons in the market each day. Of course this figure is something of a stab in the dark, because one broker may on the one hand make a transaction in the name of a bank, a brokerage firm or a mutual fund as well as of an individual, and on the other hand an individual broker may make more than one transaction.)

Putting aside such events as investing new income, and such contingencies as forced sales, to sell is in effect to bet that a stock is selling higher than it will be in the future, and to buy is to bet that a stock is now selling lower than it will be in the future (at least as compared with other stocks). Each of us, when he buys or sells stock, is in effect betting his own knowledge and judgment against the composite knowl-

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edge and judgment of millions of other stockholders.

So instead of all of us agreeing on one scientific prediction about the future, probably no two of us precisely agree about it. Stock prices fluctuate every hour of every day, because the knowledge of each of us is limited and the unexpected is always happening—we live in a world of daily surprises. Some investors and speculators can do better than others, because they are wiser or luckier, but nobody can have a perfect record. Not even the best professional forecaster.

Let us remind ourselves that the economic future itself is only a part, and an inextricable part, of the total future of all of us. To ask anyone to predict that economic future exactly is to ask him to predict the total future.

Conditions Constantly Changing

"Scientific" economic prediction would only be possible in the purely hypothetical situation that economists of a past generation called "the stationary state," that most of them now call "equilibrium," and some "the evenly-rotating economy." As a tool of thought, this hypothetical assumption can be often useful; but the condition itself never in fact exists. It would be a state in which nothing unexpected ever happened—no erupting volcanoes, no earthquakes, no tornadoes, no floods, no droughts, no revolutions, no sudden outbreaks of war, but also no progress, no discoveries, no major advances in technical knowledge, no inventions. The future could be predicted, because there would be no changes to predict—no decline, no growth, no recession, no boom. Every industry would retain the same size relative to every other. And so ad infinitum.

But in the fluctuating, capricious, erratic and dynamic economy in which we actually live, the factors to be put into a possible predictive formula or equation are practically without limit. We don't know what relative weights to give each of them, and we don't even know what some of the factors are. We are not even dealing, as so many so-called economists unfortunately imagine, with measurable objective quantities, but mainly with *subjective* elements, with *expectations,* with wavering *values.* And we can only measure these at any given moment *comparatively,* not absolutely. An automobile *exchanges* today for so many dollars and cents, but tomorrow either the value of the car or the value of the dollar may be different.

(This points to the fallacious and misleading nature of so many government statistics—the "national income," for example. A short crop of wheat or corn usually sells for a greater dollar total than a bumper crop, so a short crop can make the national income go up. If everybody

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once had as much of everything as he wanted, the national income would be zero, because nothing could command a price.)

Yet, to repeat, we are all unavoidably speculators. We are all obliged to make our own forecasts once in a while. And in making them there are a few factors we must keep in mind.

One of them is that our predictions must commonly be based on what we expect other people to do. When we attempt, in this inflationary era, to predict the future rate of inflation (which is crucial in every economic decision), we must keep in mind the recent history of Congressional spending and deficits, as well as what appears to be the complete absence of any sense of fiscal responsibility on the part of most of the members of Congress. If we do keep this in mind, we will certainly expect a higher rate of inflation both in the next few months and the next few years than is currently being estimated by any of the government economists. Such considerations won't enable us to say precisely what the rate of inflation will be in any given month or year, or how long it will continue at that rate, but they will make our guesses better than otherwise.

Another factor to be kept in mind (and one which certainly does not apply in predictions of purely physical or chemical changes) is that our expectations of the economic future themselves act to change that future. Let us suppose that a very wealthy man, call him John Smith, decides that a certain stock, say that of the Widget Company, is probably going to go up some 30 points in the next thirty weeks. He starts buying; and if his resources and faith are strong enough, he may bid up his final purchases almost the full 30 points today.

To sum up: No professional forecaster can always be right, but some, with superior knowledge and expert analysis, can be right more often than others. With the future so uncertain, each of us, every investor and every businessman, is compelled to be a speculator. But fortunately, it is not necessary that any of us turn out to be always right. As Ludwig von Mises has pointed out: "It is not correct foresight as such that yields profits, but foresight better than that of the rest."

IDEAS ON LIBERTY

Ludwig von Mises

MAN is faced with the fact that there are fellow men acting on their own behalf as he himself acts. The necessity to adjust his actions to other people's actions makes him a speculator for whom success or failure depend on his greater or lesser ability to understand the future. Every action is a speculation. There is in the course of human events no stability and consequently no safety.

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Bill Anderson

Why Socialism Fails—

WHY MARKETS SURVIVE

THE other morning I had the opportunity to view a child's lesson in socialism. While my six-year-old daughter and I curled up on the couch, the popular Saturday cartoon show gave to us in story form a recitation on how self-interest corrupts while mutual community sharing in a commonly-owned system brings peace and happiness.

Please don't misunderstand me. I have nothing against young persons—or even older persons—sharing their possessions. Indeed, unselfishness is a positive unifying force for social cooperation. But the message of the cartoon went far beyond just being generous with one's own property; it said this: self-interest leads to conflict and strife, but the road to wealth, happiness and equality comes from the proper motive of sharing one's things with others—by force, if necessary.

If we think carefully, we will realize that this kind of social sermon is not unusual. We hear such exhortations almost daily, whether they be from the minister's pulpit, the politician's speech, the editorial pages of our nation's newspapers or the evening news. Public (and most private) school curricula are often de-

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signed with such a message. Even many of our most successful businessmen declare that they seek nothing more than to further the common good of humankind; profit, they say, is not their main motive. Humanity is.

Why Are We Unsociable?

So be it. But, with all the urging to be good socialists, or at least socially-minded creatures, why are we not good socialists? Why do we as individuals continually seek our self-interest, and why do most of our actions reflect a desire to maximize our own satisfaction? From the cradle to the grave, we are exhorted by those around us to act in a manner that we believe will bring satisfaction and happiness to "humanity," yet many of our actions mirror our own needs and our own desires. In short, in spite of many "socialized" particulars of our upbringing, most of us act in a manner deemed by intellectuals and other observers of the social scene to be unsociable.

It would seem, given what we are told about ourselves, that such a condition is intolerable. For example, the environmentalist biologist Dr. Paul Ehrlich believes that human beings must curb their desire to have children "hopefully through a system of incentives and penalties, but by compulsion if voluntary methods fail."[1] Our birthrate, he says, must "be brought into balance with our deathrate" if humanity is to survive on this planet.[2] Harvard psychologist B.F. Skinner declared that "we need to make vast changes in human behavior" to solve our economic and social problems.[3] His solution, of course, mirrors that of Harvard economist John Kenneth Galbraith: intellectuals, members of the academic and scientific community and the state must play the dominant role in making all of us behave in a "proper" social manner.[4]

Vast efforts have been made in that sphere in the United States since the New Deal era in the 1930s; other nations, especially the communist ones, have gone much further, both with external stimuli designed to educate persons in the proper socialist mold and, when that failed, brute force and terror. Have such efforts worked? If these socializing attempts have been successful in the communist countries, then perhaps we can espouse a philosophy of life in which self-interest can be eliminated and replaced with service for the common good. But, on the other hand, should such methods be lacking in their effectiveness, we must either question their modus operandi or their very validity itself; for if these behaviorist ideas fall way short of the mark in their theory of human action, we must draw the conclusion that free markets, though they be stifled and harassed, cannot be eliminated from human relation-

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ships. Why? Because most behaviorist theories, when applied to the general population, are geared to the elimination of self-interest, and it is self-interest that fuels the free market.

Last year I visited a nation in which a certain amount of financial success is guaranteed by the state. Medical care was "free," each person is guaranteed a job and a place to stay, good athletes and talented arts performers are heavily subsidized by the government and pensions are provided to the elderly people. I saw no emaciated people on the streets, no beggars and (from my vantage-point) no prostitutes.

The Other Side

"Where is this paradise?" some readers may be asking by now. "How can I become a citizen of that country?" However, before you renounce your citizenship, let me tell you a few other things about this wonderful nation. To enter, I had to travel through a breach in an impregnable wall, a barrier guarded with barbed wire, tank traps, steely-eyed guards with machine guns, vicious dogs and buried land mines. The wall exists not to keep travelers like me from entering but rather to keep people from leaving this "workers' paradise." On the other side of the wall, numerous crosses served as reminders of the many who had been gunned down by their countrymen while trying to leave without their government's permission. The barrier is the famed Berlin Wall and the nation, the world's most prosperous communist country, is the German Democratic Republic, known better as East Germany.

Compared with West Germany, the GDR's standard of living is quite low, and that difference between the two nations is assumed to be the cause of persons' risking their lives to cross from East to West.[5] But such an explanation of why people are willing to take a chance at being ingloriously gunned down at the border is, at best, incomplete. After all, the GDR offers what many intellectuals and politicians believe the people *really* want: bread, jobs, and circuses (or, to be more accurate in the GDR's case, bread, jobs, and operas).

And, in keeping with what Dr. Ehrlich believes is the proper role of government, the East German state dictates a lifestyle for each citizen. Birth control—sometimes enforced with required abortions for women who might become pregnant at what the government regards as an inopportune time—is a must. An intellectual and political elite tries to determine the lives of each person living in the GDR, exchanging the promise of lifetime security for an implicit agreement that the people do what the government tells them. And still they risk their lives; if the wall were suddenly removed, many

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more would stream across the border.

Something is clearly amiss in someone's social theories. The intelligent and efficient East German leaders have used the best-known techniques of mind control and stimulation. But, judging from the high number of defectors from that nation and the increased amounts of "underground" economic activity in the GDR, numerous Germans from behind the Iron Curtain still practice officially *verboten* self-interest.

The Chinese Story

Perhaps the East Germans are an exception; after all, many of those citizens had been previously "contaminated" by capitalism before World War II. A decade ago, many western intellectuals journeyed to the Far East and, upon their return home, gushed forth the praises of the Communist Chinese nation that had seemingly trained its citizens to be happy, cheerful, socialized people. Chairman Mao had urged his subjects to be "willing to integrate yourselves with the broad masses of the workers and do so in practice."[6] The people, according to the intellectuals and members of the western media, proclaimed the glories of socialism with "evangelistic moral fervor."[7]

And even though the Chinese state is officially atheistic, missionary David H. Adeney enthusiastically trumpeted what he felt were the government's real achievements.

> Many of the great economic problems of the past have been solved. The terrible inequalities between rich and poor have disappeared. No longer does a large segment of the population live under the threat of natural disasters such as flood and famine [In contrast to Adeney's claims, reports have filtered out from China that tell of millions dying at periodic times in the past three decades, both from famine and disaster]. There are none of the glaring inequalities which are to be found in a city like Hong Kong with its great contrast between the very rich and the very poor. Many have been impressed by the clean streets, disciplined living and the absence of prostitution, sordid sexy advertisements and commercialism which are found in other parts of the world. Even though living standards may seem to be very low, the communists have at least been able to provide for the basic needs of the largest national population on earth.[8]

Yet, many Chinese still flee to Hong Kong, risking their lives to swim across a shark-infested bay or sneaking through a no-man's land, hoping to avoid border patrols that will send the would-be escapees back to China.

The situation is puzzling. On the one hand, intellectuals and religious leaders tell us that what people believe to be a horrid social evil—disparity of incomes—has been eliminated in China. On the other hand, people still want to leave that land.

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What about Mao's exhortations to "serve the masses"? Adeney says, "He (the individual) is sent to the place where his gifts can be used to serve the masses . . . the communist state does not allow a man to choose the place of work where he can obtain the maximum benefit for himself."[9] It is clear, from reading Adeney's description of China, that the communist system works with success.

Yet, a contrasting account comes from a man who lived for a year in the Chinese city of Zhengzhou:

> The slogan "Serve the People" is laughed at . . . The overwhelming worry in students' lives is their future job assignments. They are seldom consulted about their interests or desires. The theory is that one should serve the state in whatever capacity the state wishes. This means giving the cushiest jobs to party members and their friends. For society as a whole, the result is bus drivers who wish they were postal clerks, electricians who wish they were metal workers, and shop clerks who wish they were bus drivers . . . With so little personal freedom it is unutterably difficult for a person to discover what his potential might be, let alone fulfill it in the service of the state. The policies of control make the control necessary, and by exercising them so encompassingly, the government cheats itself of the abilities of its own people while it cheats people out of their abilities.[10]

The reports of individualism are not endemic to either the GDR or China. Such stories accompany tales of human action from nearly every totalitarian nation on the globe. Something in the human condition makes us act as individuals. Governments using the most sophisticated and most terrible methods of control have failed—and will continue to fail—to create the socialist man en masse. What they have created, instead, are austere, grim societies in which the individual, to reach any sort of self-fulfillment, must often break the law or leave the country.[11]

The Socialist Paradox

This does not mean, due to past failures of socialist experiments, that social visionaries will stop trying to create the collectivist utopia. A glance at the world scene today will dispel any such notion. But all these social experiments are doomed to failure because a collective cannot act; only individuals act. They may work with one another in a collective effort, but that output is only the sum total of individual action. Walter Lippmann understood this condition well when he wrote of the Nazi experiment in the 1930s:

> The success of this experiment would seem to depend upon the fulfillment of a paradox. All Germans must sink into docile but eager resignation, accepting the decision of the *Führer* as the fellah accepts the will of Allah; and then out of this conforming mass must arise brilliant, adventurous, and supremely intelligent leaders.[12]

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Within the socialist framework, only the collective (read that, "people") has importance and yet, as Lippmann so aptly pointed out, the kind of leadership needed within a society must come from that same mass that has been told that individual initiative is evil. One cannot be a leader without exerting individual initiative; likewise, as Israel Kirzner has noted, a growing, dynamic economy is impossible if the entrepreneur does not have freedom to act (in the Soviet Union and a scattering of other socialist nations, to engage in entrepreneurship for profit is to commit a capital offense punishable by death.)[13] This might account for the reason numerous western visitors to communist lands have remarked that the countries seem economically and socially frozen in time, a condition that certainly applied to East Germany when I saw it last year.[14] People in the GDR have tremendous pressures upon them to *conform,* and the penalties for nonconformity make it extremely unattractive for people to risk imprisonment and even death just to improve one's financial state (one can also place political dissidents and artists who refuse to succumb to "Socialist Realism" in their work in this category of risk takers). Thus, to reduce the risk, would-be entrepreneurs must often engage in bribery and stealing in socialist nations; as one recent exile from the Soviet Union writes, the socialist system is greased by corruption.[15]

Why the Urge to Be Free?

We have examined reasons why socialist systems work so poorly, but have not explained why human beings cannot be totally socialized. After all, we can say that human beings act from their own desires and perspectives, but we have not said why this is so. We ask: "What is it in the human condition that does not allow us to be totally absorbed in the collective? Why do we as human beings act first from our own perspective and not the perspective of everyone else? And why do we want to be free?"

A glib answer that comes from some of the intellectual elite in religion and social sciences is that most people are not enlightened and need to be herded into doing right by members of the elite, be they a B.F. Skinner or a David Adeney who declares that it is "tragic that only a few Christian professionals demonstrate true dedication to the needs of society and victory over self-interest. Many would bitterly complain if deprived of freedom and compelled by the state to serve where the need is greatest rather than where the salary is most attractive."

In one sense, perhaps, the intellectuals are right. We *are* unenlightened in many aspects and truly limited in what we can accomplish. Most

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religious (and secular) dogmas admit that sin and suffering exist in this world; people become ill, make mistakes and often fail to show proper respect for their fellows. We live in a world fraught with error. Such is a given condition of life as we know and experience it.

But imperfection is a trait of *all* of us, not just *most* of the population. To say that a few of the elite can by force or persuasion rearrange the world into a utopia is to vastly misunderstand the human condition. Writes Thomas Sowell:

> For some, the world is envisioned as a place that needs only their superior virtue and wisdom to achieve happiness and fulfillment. This might be called the vision of the anointed. To others, the problems inherent in man and the cruel choices of nature can only be imperfectly resolved, and even this modest goal requires great efforts by all, not inspired salvation by a few messiahs.[16]

The Division of Labor

It is vitally important to understand that all of us are vastly limited in many respects. A man thoroughly skilled in metaphysics may have almost no knowledge of economics; likewise, a highly-regarded economist may be totally ignorant of the processes in a nuclear fission reaction. People may gain expertise in some areas, but few, if any, persons are extremely competent in all disciplines. And there are probably none among us who can truly predict the future, least of all, economists.[17]

Because of our limitations, we can barely master our own circumstances, let alone the circumstances of others. The best guide we can have for dealing with situations that face us is self-interest, flawed and racked by evil as it may be. As Sowell points out:

> The problem with experts is that they don't know and can't know. They may have a lot of theories and second-hand information at their fingertips. But the hard, specific knowledge needed to make decisions is usually scattered among millions of laymen. The layman is the real expert on his own particular situation and has every incentive to change his decision when the results don't turn out the way he wants... True, an expert may know more than one layman. But neither of them knows enough to try to control a whole economy or society of millions of other human beings.[18]

It is in the best interest of the individual to learn from his or her own errors. Granted, all of us repeat our mistakes from time to time, but the negative results from those mistakes give us incentive to correct our errors.

This is not always true, however, for those in positions of governmental power and authority. Take education, for example. For more than a decade the "new math" was foisted on public school children, even though many educators had serious misgivings about that curriculum.

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The result was that mathematics skills of children involved in "new math" were found to be far below those students taught a more conventional form of math. To the layman, the only sensible thing seemed to be to drop this pseudo-math like a hot potato; but to the experts whose jobs depended upon continuation of the "new math," changes in the mathematics curriculums across the nation became a threat to their livelihood. Therefore, they organized and worked with an amazing amount of success to keep "new math" in schools for many years, to the detriment of many youngsters who became unwilling victims of this educational malpractice.[19]

There seems to be an unsolvable contradiction in my thesis on self-interest, however. First, I point out that self-interest is, given our very real limitations, the best guide for human action. But then, I show how self-interest on the part of some educators has proven disastrous in the field of education. Either self-interest is good or it is bad, one may say, and if it has such awful effects, then perhaps society should work to eliminate self-interest from the individual. (Of course, that last phrase is a self-contradiction itself, since it implies—if one believes the whole (society) is a sum of its parts (individuals)—that it is in the self-interest of all individuals to eliminate self-interest.)

Acting Voluntarily

The key word in all of this discussion, however, is *coercion*. When an individual follows his own self-interest and has little, if any, power to coerce his or her neighbor into doing what he wants, then *that* self-interest can serve others. For example, take the baker of Adam Smith's *The Wealth of Nations*. Smith wrote that the baker did not bake bread because he was necessarily a benevolent man, but rather because he wished to make a living. He was following his own self-interest—he could make money plus he may have enjoyed the feeling of accomplishment when he produced an excellent product—and his neighbors received benefits in the form of bread and pastries.

It is important to remember that the baker had no power to *coerce* his neighbors to buy his bread, at least in Smith's example. All the exchanges were voluntary, and both the baker and the buyers benefited from the exchange.

However, to show how coercion may distort the picture, let us give the baker the same power as, say, the public educator. First, the baker has the local government pass a law that only he can bake bread within certain limits, and those trying to start a bakery without his permission will be subject to imprisonment or fines or both. Next, he has the government decree that people in the

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neighborhood *must* buy their bread from his shop; they cannot manufacture their own bread in their homes. This condition is known as compulsory bread buying (he may even press for a law that requires people from another neighborhood to be bused to his bakery). Some time later, people begin to discover that the bread is moldy and the pastries are hard and tasteless, but the baker, backed by his political friends, manages to keep the compulsory bread-buying law on the books. The law, they solemnly declare, is in the public interest.

The people in the neighborhood, while obeying the law at first, may take to less-than-lawful means to obtain bread as the quality of "public interest" bread deteriorates. They may secretly bake bread in their own homes; perhaps a disgruntled resident may set up an "underground" bakery in the back of a hardware store. Maybe a brave soul will openly set up his own "uncertified" bakery in hopes that the unjust law will be repealed (unfortunately, he is arrested and jailed and his illegal bakery padlocked).

In all three cases, people are following their own self-interest, but only in the first instance, when buyers and sellers are involved in voluntary exchanges, can self-interest truly serve the public good. In the second case, when the baker was able to convince the legislators to give him a legal monopoly, what was in the baker's self-interest was not at all in the interest of his customers. In the third situation, the underground market, while providing much-needed services to people, involved corruption and dishonesty to stay afloat. Yet, people who might think of themselves as law-abiding and decent citizens, will turn to such unlawful tactics if they feel their rights to pursuit of their vital interests are either being stifled or taken away.

The Underground Economy

The corruption that accompanies underground economic activities in many socialist nations is a good case in point. To quote a troubled Soviet official, "It's hard to imagine the extent to which theft and corruption have become expected. The assumption that 'everybody steals' is erasing the whole nation's sense of right and wrong."[20] Yet, at the same time, such underground economic activity is necessary to keep the Soviet economy afloat. The Soviets face a dilemma; they can either admit that socialism works poorly, a move that would discredit their entire political structure, or they can continue to speak of the glories of socialism and tolerate the black market, knowing full well that such activity, accompanied by corruption, is tearing the soul of that nation apart.

Because people will ultimately follow their own self-interest, markets, be they legal or illegal, will in-

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evitably spring up. However, there is more to the human condition than just sin and self-interest. As human beings, each of us desires to be significant. Each of us desires purpose for living; most, if not all, of us aspire to something beyond what we have today.

Because of their makeup, markets enable us, at least in part, to pursue our goals. Says Kirzner, "The market system runs on purposefulness."[21] That purpose may be monetary profits to improve our own standard of living or profits to improve someone else's life. People may seek power, as in the case of a politician, or influence, as in the case of a journalist or teacher.

The psychologist Abraham Maslow claimed human beings have a priority of needs, beginning with basic physiological needs such as food, clothing and shelter. People without those basic items will center their lives on obtaining them. Once those needs are met—or, *if* they are met—people seek more abstract goals such as safety and security, belonging and social needs, esteem and status and, finally, self-actualization and fulfillment.[22]

For example, an entrepreneur may risk his life savings on an enterprise because he believes success will bring riches. Twenty years and millions of dollars in profits later, however, the entrepreneur, once motivated by making money, now seeks to be known not as a "cut-throat businessman," but rather as a philanthropist or, perhaps, a "friend of arts." Such was the process of many of America's self-made men like John D. Rockefeller or Andrew Carnegie (whose descendents now often engage in anti-capitalist activities).

Ways of Self-Expression

Whatever the motivation, people will seek avenues to fulfill their dreams. The market is one of those avenues, though not the only one. Hitler, Stalin and Lenin sought other paths to power besides noncoercive markets (although Hitler was, at first, chosen in a free election—he later seized absolute power in Germany by brute force). And some people who gain wealth and prestige through free market activities may later turn on the market because they feel such action advantageous to their own position.

Yet, for those who spend much of their careers working against the market system, numerous others use it because they have no other avenues to success. A man who lacks literary talent and thus cannot make millions skewering private enterprise in books and articles may have abilities in making and selling better mousetraps. The Soviet citizen who, because of his lack of position or party membership, cannot shop at the special "yellow-curtain" shops which offer goods not available in

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regular stores may turn to the underground market to satisfy his needs and desires. That same citizen, disgusted at the low pay he receives from his guaranteed, state-run job, may illegally moonlight as a repairman or taxi driver. Again, he turns from government-run activity based on coercion to private—though illegal—activity based on free exchange. He lacks the power to coerce; therefore, he must seek other means to fulfill his needs.

There is one other reason that free markets exist in the face of hostility, that being the need for interpersonal cooperation. Of course, to the anti-capitalist mind, such a claim may seem self-contradictory. After all, we have been brought up on the notion that competition, not cooperation, is the basis of the market system. In one sense, this is true. Competition helps provide the incentive people require to do a job well.

But, on the other hand, market systems are also dependent upon free exchange. Buyers must cooperate with sellers and, within a business enterprise, individuals must cooperate with other individuals. Notes theologian Michael Novak, "What constitutes capitalism is an organizing ethos, a corporate enterprise, a collective effort. Capitalism is far more social in character than its enemies—or its friends—have yet grasped."[23] Businesses, unless they have the power of government behind them, cannot coerce customers into buying from them. Their only other avenue to success is through incentive and cooperation. (This does not mean that businessmen are immune from using fraud and trickery in their activities—it just means that in the absence of coercion, businesses must be able to attract potential buyers into voluntarily cooperating with them.)

We Are Interdependent

When we speak of free markets and self-interest, the idea of "rugged individualism" comes to mind. Yet, self-reliance is a myth.[24] We must all cooperate and interact with others if we are to survive; all of us are interdependent upon the skills and services of others. The same goes for nations. As the French economist Frederic Bastiat once said, "If goods don't cross borders, armies will." For the cause of peace, there is a need for free exchange.

Markets have existed and will continue to exist because there is a pressing need for them. As Kirzner puts it, "The market is the substitution for the absolute knowledge of truth."[25] We are imperfect and shortsighted people. In a real sense, we are all blind to absolute truth and knowledge. We need incentives, and we can only act at any time with partial knowledge. With that in mind, we should remember that no central authority can or should have

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near-absolute control over actions of others; the result—and we see it in totalitarian states—is the blind forcing the blind to follow. What was originally sought in those nations was economic order; what has emerged is economic chaos.

Not only are we dependent upon self-interest to help us in solving our problems, we are also forever finding that new and pressing problems needing solutions continue to force their way into our lives. We cannot live without continual replenishment of the basic necessities of life; nor can we exist without self-expression. Notes William Winter, "Self-expression is the dominant necessity of human nature."[26] And because most of us lack the legal power to coerce others into serving us, we must turn to the cooperation of the market system to fulfill our needs.

As Sowell writes: "The institutions that bring out the cooperation of numerous and very different people—the family, the Constitution, the market, traditions—are all sacred to believers in the vision of social processes as the way to make the best of the tragic human condition."[27]

Yet, the market will always have its enemies, and by blocking the free activities of the market, the enemies of capitalism have succeeded and will continue to succeed not in their cherished aims of bringing social order and harmony, but rather in creating chaos and poverty. The record of collectivism in this century, from Stalin's gulags to Mao's hellish communes to the Pol Pot massacres, is one of coercion and failure. Yet, the failures of socialism do not sway those who seek to impose more socialist orders on humankind. As Sowell points out, what believers in social processes see as ways to deal with the problems of humanity, many intellectuals and government leaders scornfully view as obstacles to their own imposed "solutions."[28]

Markets Will Survive

But for all the anti-capitalist mentality that exists, we can be assured that markets in one form or another will survive. True, by blocking—or attempting to block—market processes, many social leaders stifle legitimate human action and aspirations, but they cannot completely immerse the human spirit in the sea of collectivism.

The only way that socialism can succeed is for an elite to have total knowledge of what is good for others (who are assumed not to know what is good for themselves), and then to be able to force their will on that less-than-enlightened population. And as long as human beings remain in their imperfect state, we can assume socialism will never be successful. Therefore, free markets—though stifled—will exist as long as human beings inhabit the face of the earth. And markets can best serve

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the public interest when they are permitted to be practiced in the open without government harassment and extensive regulation.

—FOOTNOTES—

[1]Paul R. Ehrlich, *The Population Bomb* (New York, 1968), Prologue.

[2]*Ibid.*

[3]B.F. Skinner, *Beyond Freedom and Dignity* (New York, 1971), p. 2.

[4]Francis A. Schaeffer, *Back to Freedom and Dignity* (Downers Grove, Illinois, 1972), p. 22.

[5]Because of the social and economic makeup of communist nations like East Germany, accurate comparisons of standard of living are hard to measure. A suit bought in East Germany may cost the same percentage of income as a suit bought in West Germany. But the West German suit may be of a higher quality. It is simply difficult to measure all variables in such a comparison. In the case of people escaping communist nations to enter free ones, standard of living may be only a partial reason. Freedom of worship or speech may also enter in the picture. Again, it is hard to measure motives. We must simply accept the fact the people escape *from* communist nations, not *to* them.

[6]Quoted from David H. Adeney, *China: Christian Students Face the Revolution* (Downers Grove, Illinois, 1973), p. 119.

[7]*Ibid.*, p. 116.

[8]*Ibid.*, p. 114.

[9]*Ibid.*, 120.

[10]James Kenneson, "China: Reality Revealed," *Reader's Digest* (Oct., 1982), pp. 90-91.

[11]We have seen time and again "illegal" activities in communist lands from black markets to secret manuscripts written in those countries then smuggled out to be published in the West.

[12]Walter Lippmann, *The Good Society* (Boston, 1937), p. 60.

[13]But even the threat of torture, imprisonment and death does not deter people in those countries from carrying on capitalist or "speculative" activities.

[14]For further descriptions of this phenomenon of communist lands, read Lawrence Elliott, "Berlin Beyond the Wall," *Reader's Digest* (January, 1979), and Robert Poole, Jr., "Inside Cuba Today," *Reason* (October, 1981).

[15]For a detailed examination of the underground market in the Soviet Union, read Konstantin M. Simis, *USSR: The Corrupt Society* (New York, 1982).

[16]Thomas Sowell, *Pink and Brown People and Other Controversial Essays* (Stanford, Calif., 1981), vii.

[17]For more on this, read Lawrence W. Reed, "Economists and the Future," *The Freeman* (May, 1983).

[18]Sowell, p. 36.

[19]To see this malpractice in reading classes, read Samuel Blumenfeld, "The Victims of 'Dick and Jane'," *Reason* (October, 1982).

[20]George Feifer, "Russian Scenes, Russian Voices," *Reader's Digest* (October, 1980), p. 213.

[21]Taken from a lecture Israel Kirzner gave in Chattanooga, Tenn., in June, 1983.

[22]A.H. Maslow, "A Theory of Human Motivation," *Psychological Review,* vol. 50, 1943, pp. 370-396.

[23]Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics,* vol. 43, July, 1981, p. 375.

[24]Bill Anderson, "The Myth of Self-Reliance," *The Freeman* (December, 1981).

[25]Kirzner, *op. cit.*

[26]Quoted from Dale Carnegie, *How to Enjoy Your Life and Your Job* (New York, 1970), p. 94.

[27]Sowell, viii.

[28]*Ibid.*

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Ridgway K. Foley, Jr.

THE IRONY OF ETERNAL VIGILANCE

COMMON political folklore advises citizens mulcted by the persistent mirror evils of entitlement and regulation to "become involved in the governmental process in order to hold your own" and thus maintain their lives, liberties, and properties against the ravages of the avaricious state and its propelling plunderers. I protest: no one should be compelled to take up cudgels to defend and protect his God-granted rights against onslaughts perpetrated by envious, greedy, power-seeking panjandrums. Each person should enjoy a sanctuary devoid of unwanted intrusion by the state or its minions.

Those who offer the well-meaning advice concerning political involvement recognize but a single facet of reality: The dynamics of modern pressure-group politics result in a cacophony of quests for unearned largess and control over the destiny of others. A multitude of special interest conglomerates secure enactment and enforcement of rules and orders designed to employ the coercive force of the state to the end of self-betterment at the expense of other, less influential or well-organized, individuals. The exhortative activists suggest like action: Use special interest activity to combat the existing wicked ambiance permeating the halls of government. Thus witness the formation of taxpayer unions, public interest law firms, and freedom lobbies crafted to promote "free enterprise," a balanced budget, judicial restraint and a whole host of superficially laudable notions.

Unfortunately, such conduct overlooks the shopworn but honest ad-

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age that those who cannot read history are damned to relive it. Almost three thousand years ago, the Psalmist David warned us to "put not your trust in Princes, nor in the son of man in whom there is no help." Lobbyists, legislators, and jurors represent the current crop of "princes," and the "son of man" equates with those sinister individual and aggregate attempts to coerce compliance with niggling norms motivated to limit creativity and to restrain the enhanced moral life. Simply put, one who adheres to the admonition to achieve political involvement will receive disappointment, not absolution; such persons who trust princes and serfs will find the proposed solution wanting.

Eternal Vigilance

Since we have been alerted by John Philpot Curran that eternal vigilance constitutes the price of freedom, it appears appropriate to investigate the reasons that deny efficacy to such a proposal for a political solution. A several-fold rationale divides into two categories of justification undergirding the conclusion.

In the first place, political activity (even that formed for high purpose) will not prove competent to achieve the desired result. In the instant case, counselors recommend the formation of political action groups to encourage proper governmental stands upon such causes as the liberation of business from the bonds of constraint, the inculcation of fairness and restraint into the system of taxation, the limitation of expensive entitlement or transfer payment programs and the like. They champion such tactics as flooding Congress and the President with petitions, raising funds to elect compliant legislators or to defeat recalcitrant ones, employing proctors to adjudicate the legality of governmental behavior, and similar deportment.

Such efforts will prove unfruitful for two simple, cogent and related reasons: (a) The doctrines of regulation and entitlement, with their appeal to mankind's malevolent side, always appear more desirable and harmonious than the path of right; and (b) the purveyors and seekers after booty can and will always outvote and politically overwhelm the remnant who merely wish to be left alone, never once pausing to contemplate Ayn Rand's seminal question of "who will the looters loot when the victims are vanquished?"

In the second place, it is morally repugnant to enlist force to achieve the ends of liberty. Coercion begets coercion, restraint begets restraint. As Leonard Read was fond of noting, "the bloom pre-exists in the seed, the ends pre-exist in the means." Political action—however properly conceived—still consists of the application of legal constraint upon creative

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human endeavor. Given the dark side of mankind, well-intentioned conduct invoking governmental action naturally deteriorates into coercive conduct resulting in the deprivation of human freedom. Treatment thus aimed at saving voluntary action soon succumbs to the disease sought to be cured.

Furthermore, contemplation of the ineffectiveness of political counteraction ignores the fundamental wrong: An unwilling individual ought not be drummed into the service of the freedom fight against his will. Justification of such an enlistment operates on the same premise as "might makes right." Consider the basic proposition: "A" lives an upright life, never treading upon another's freedom, always producing and trading desirable goods, services, and ideas in a market; by what moral principle should "A" be compelled to expend his share of his rightful acquisitions in thwarting legalized theft?

One may deduce a quintessential duty to join the community defense against outlaws, but one may not distend the principle to compel such an obligation against brigands who use the law for wrongful purposes. Those who exhort common political activity essentially contend that a person who lives decently and properly should nevertheless engage in distasteful activity at his own expense to prevent illegality by the very state which is supposed to act as the eternal policeman for the citizenry.

On What to Do

One inquiry remains: What course of conduct should be followed by one who eschews political behavior yet aspires to freedom? An answer requires the height of presumptuousness, for no actor can effectively direct another in this type of endeavor. Suggestions, not commands, follow. Refuse to recognize impolitic politics. Resist tyranny in all forms by every peaceful means and by adherence to ethical principle. Recognize and avoid coercion and rebuke those who apply it to your life. Read, write, discourse, listen and learn the elemental postulates of truth and live by them always. Reveal your light to those who wish to see.

IDEAS ON LIBERTY

Raise a Standard

If to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and honest can repair. The event is in the hand of God.

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William H. Peterson

KICK A BUSINESSMAN TODAY

THE BEAT GOES ON—i.e. the daily beat-up of the businessman on the Boob Tube. Not physically but psychically: in the perception of the businessman and the role he plays in our society.

Scheming oilman J. R. Ewing of "Dallas" is the prototype. Recently three George Washington University researchers—Linda Lichter, S. Robert Lichter and Stanley Rothman—spent eight weeks in front of the Tube and reported their findings in *Public Opinion*. They identified 226 fictionalized business men and women in Televisionland. A lopsided 60 per cent of them, they found, were Bad Guys—and of these, one out of three (or 21 per cent of the total) was an out-and-out criminal. Worse, this criminality stemmed not so much from character failings, home background and the like but rather from the nature of the business environment itself.

Thus in "The Jeffersons" we witness a hotel executive get sadistic pleasure in firing employees and express ardent dislike for blacks. In "Three's Company" we observe a "lady" diner-owner fire her cook when he rejects her sexual advances. In "Lobo" we watch a bank manager plot the robbery of his own bank. In "BJ and the Bear" we see the owner of a corporate conglomerate deal in illegal explosives and try to sabotage a company ship in order to collect the insurance.

Rarely, if ever, does free enterprise get bouquets on television. But brickbats, yes. In one segment of "Taxi," for example, the drivers gripe about dangerous deterioration of their cabs and put it to management to make the needed repairs. Louie, the manager, proposes instead to fix the company records so manage-

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ment could not be blamed. Naturally, the drivers object to Louie's devious scheme. Louie, however, explains away his guilt by informing them, "Every great businessman has done it."

Similarly, in "Diff'rent Strokes," a couple of kids start up their own brownie business. When their business becomes too successful for them to handle alone, their sister asks to become their partner in exchange for her help. The two boys offer her instead a meager salary as their employee. They explain: "That's what business is all about. You do the work and we get the profits."

Concluded the Lichters and Rothman: "If American business has redeeming social values, they rarely turn up on prime-time television. Rather, businessmen are cast as evil and selfish social parasites whose efforts to secure 'more' are justly condemned and usually thwarted. Television has blurred the important distinction between selfish and self-interested behavior. According to television, what is good for business is not likely to be good for American society."

These conclusions tie in with Ben Stein's earlier study of TV's top sitcom and soap opera writers and producers. In his *The View from Sunset Boulevard,* Stein interviewed the creators of TV's hit series and found them condemning business as part of "a dangerous concentration of power." Business people, he was variously told, are "lepers . . . dinosaurs . . . cannibals . . . sons of bitches." Douglas Benton, who has written or produced for "Police Woman," "Ironside," "Columbo" and many other shows, conceded that business is economic democracy at work. But he added: "It's the strong smart people who get all the money and the weak dumb people who suffer."

Stein recorded his similar revealing dialogue with Bob Weiskopf, a co-producer of "Maude," as follows:

Q. Why are people poor in America?
A. Because I don't think the system could function if everyone was well off.
Q. What do you mean?
A. I think you have to have poor people in a capitalist society.
Q. Why?
A. To exploit. The rich people can't exploit each other. Consequently they always exploit the poor.

Granted, business people, as in every other walk of life, have their share of scalawags and ne'er-do-wells. But TV's distorted perception of business people does a profound disservice to American democracy. This one-sided perception is, I submit, hardly calculated to aid our economy in its struggle to recover. Or to assist young people in high

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school or college on choosing a career in business. Or to provide understanding to our legislators to fashion intelligent economic policy.

Moreover, the perception, which is furthered on network news programs, promotes the idea that not free enterprise but far-seeing humanitarians and political crusaders are responsible for America's well-being. It advances the idea that income essentially flows from Washington and only secondarily from Rural America, Main Street, Wall Street, and Factory, Laboratory and Office Row.

In addition, the perception squelches the highly strategic marketplace role of the entrepreneur who, aided by the saver and investor, competitively applies our limited resources to where they'll do society the most good—creating jobs and wealth, including our daily bread, and thereby boosting our living standards.

For, after all, it is the entrepreneur—no matter how denigrated—who continuously seeks out business opportunities and accordingly combines land, labor and capital into fresh and hopefully profit-making, wealth-creating and job-inducing situations in an ever risky, uncertain and dynamic world. And no matter if the entrepreneur is a farmer, undertaker, gas station owner, fast-food restaurant operator, construction contractor or head of a giant conglomerate, the message for our free enterprise system in this critical recovery phase of the business cycle is the same: No entrepreneurship means no economic growth. Worse, it ultimately means no jobs. No wealth. No freedom. Only decay and social breakdown. The entrepreneur, in other words, is the unsung and most unappreciated and much needed hero of our times.

But the Tube proclaims, in effect, that the public sector sustains the private sector instead of the other way around, that Congress or this or that President somehow crushed poverty by redistributing wealth and by regulating and planning (read "fine-tuning") the economy. Business—the fountainhead of our wealth, our tax revenues, the source of 80 per cent of our jobs—gets short shrift.

As black Stanford economist Thomas Sowell puts it in his new book, *Pink and Brown People:*

> It was not our enlightened crusaders who brought light to the masses. It was Thomas Edison. It was not our intellectuals who ended the insularity of isolated communities. It was Henry Ford and the Wright Brothers. For the man in the street, Kodak did more to make him aware of pictures than Rembrandt and all the museums put together. More people hear Beethoven as a result of recording than ever heard him in his own time.

Sunset Boulevard, please copy.

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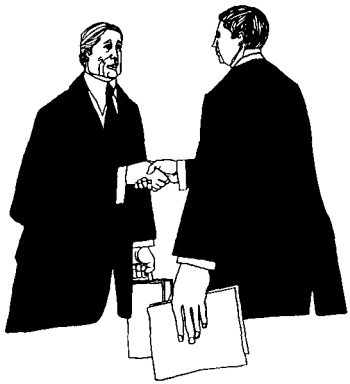
Edmund A. Opitz



Business and Ethics

Mr. X manufactures gismos in a plant which uses the varied skills of a thousand employees. These people might cheerfully acknowledge that they'd rather be sailing, or fishing, or whatever; but when it comes to supporting themselves they have chosen to work with Mr. X in preference to any known alternative. They are free to leave whenever a better opportunity offers, and many have indeed "graduated" into other forms of employment, to be replaced by people who have chosen to work with Mr. X as the best opportunity available to them. A lot of people find gismos useful, and they are offered for sale at a price consumers can afford. So people buy, and Mr. X prospers.

The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education, a seminar lecturer, and author of the book, *Religion and Capitalism: Allies, Not Enemies.*

The relations between Mr. X and his employees are amicable; they are completely non-coercive and all arrangements are voluntary. Likewise all arrangements with customers. Mr. X is wholly dependent on willing customers, over whom he has no leverage except the appeal of his product, plus the persuasiveness of his advertising. Mr. X has a profitable business, and his customers profit too; owning a gismo makes life more pleasant. There is an overall upgrading of the level of human satisfactions on the part of everyone involved: Mr. X, his employees, and the users of his product. By any definition of the term, Mr. X is performing a public service; everybody profits, nobody is coerced.

Mr. Y manufactures thingamajigs. There was once a brisk market for this gadget, but times have changed and the item is no longer

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fashionable. Sales decline steeply and the firm slumps into the red. Mr. Y's firm is on the verge of failure. Now, no one likes to go down the drain, although in the profit and loss system of the free economy—usually called "capitalism"—some firms are bound to fail; customers simply stop buying, an act of free choice on their part, consumer sovereignty in action.

Mr. Y, although he has lost most of his former customers, has friends in Washington; so he lobbies for a handout. The politicians and bureaucrats respond by bailing him out with taxpayers' money. What does this mean to the average citizen? People who had refused to voluntarily pay their hard-earned dollars for one of Mr. Y's thingamajigs now have a portion of their earnings confiscated by the taxing authority in order to keep Mr. Y and his company afloat. Doesn't seem right, does it?

As long as Messrs. X and Y operated in the private, voluntary sector of society they had no power to coerce anyone. Neither man could force anyone to work for him or buy his products. The rules of the marketplace forbid this. Under these rules Mr. Y faced failure, so he entered into an arrangement with government, and now the law forces every taxpayer to spend a fraction of his time working for Y, and another fraction to subsidize the sale of Y's product.

There are many real life situations that parallel the case of Mr. Y. Most recently in the news, and therefore fresh in our memories, is the Chrysler caper. The firm is a large one, and its products have merit. But for a complex set of reasons the American public turned to other makes of automobiles. The free market—which is the playing field where the rules of business hold sway—began telling Chrysler to go into some other line of business, or fail.

This adverse business judgment on its products turned Chrysler toward politics. The several hundred thousands of people who make up Chrysler—management, labor, and stockholders—refused to accept the verdict of consumers, who chose to buy other makes of cars. Instead, they turned to Washington and got help. They got a political remedy for economic failure, as have countless others.

Unbusinesslike Conduct

A business or industry endures only so long as it pleases customers. When a business ceases to please customers it ceases to exist as a business. At this stage of the game it may succeed in pleasing politicians, who have the power to force taxpayers to support the new operation. This is a different ball game. A failed business propped up by a government handout is no longer a business; it's a hybrid which de-

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serves criticism as an unethical raid on the public treasury. It doesn't matter much what you label this politicized industry, so long as you realize that it operates in defiance of the rules which define a business or industry in a free society.

A businessman *per se* operates within the framework of rules laid down by "the market"; when he operates outside this framework, and by a different set of rules, he is something other than a businessman. "The market" describes the process of social cooperation under the division of labor, where free and virtuous people specialize in a complex variety of tasks in anticipation of a consumer demand for the goods and services they produce. This is stage one of the market, and it is followed by stage two—multiple voluntary exchanges of these goods and services where people give over something they value for whatever it is they value more. The end they have in view is maximum satisfaction of creaturely needs for food, clothing, shelter, recreation, or whatever.

Most of those involved in business, industry, and trade operate within the framework laid down by "the market." They have a genuine desire to serve consumers; they take a craftsman's pride in the honest workmanship embodied in quality products which make the life of all of us safer, healthier, or more pleasant. And they feel a moral obligation to give value for value received; they have adopted and try to live up to a code of "business ethics," a praiseworthy effort, at which most businessmen succeed far better than many in other walks of life.

I was discussing this ethical point with a friend who had taught economics to a generation of students at a fine midwestern college, where he also served for some years as Dean. We were talking about our two professions—teaching and preaching—some of whose seamier sides we had experienced from the inside. "You know, Ed," he said to me, "a thoroughly dishonest man can last longer as a professor or a preacher than as a used car salesman!" I had to admit that there was more than a grain of truth in Ben's cynical observation; and further, that these same intellectuals have a tendency to look down their noses at business, industry, and trade, as if the people involved in commercial activity are a lesser breed—a mean and mistaken opinion which I reject completely.

The Customer Is Boss

In a genuinely free society, a *laissez faire* society in the early sense of this much abused phrase, the businessman is a mandatary of consumers; the customer is boss. Consumer sovereignty! Is this the way the businessman likes it? Of course not. Our businessman would like to

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think of himself as the man in charge, hands on the reins, running a tight ship. But who is he kidding? He doesn't have even the power to set wages in his own factory, or fix the prices he'll charge for his products! His competition, his employees, and his customers make those decisions for him. If he tries to lower wages he will lose his best workers to his competition who pay the going rate or more. If he tries to raise prices people buy elsewhere. He's stymied, and that's why he's tempted on occasion to persuade some politician to bend the rules in his favor, just enough to give him a little "fair advantage." But when a businessman yields to this temptation he forfeits his standing as a businessman and becomes something else—a branch of the government bureaucracy with a status similar to the postal service.

Wealth has a universal appeal, but wealth production is a dull affair. There's nothing about work to make the adrenalin flow or the heart to leap; there's no poetry, dash, or glamour about commercial transactions—which is why the literacy tribe turns its back on the realm of trade. John Ruskin, for example, admired the buccaneer and freebooter type, calling him the Baron of the Crags—the knight with his castle atop a hill. The modern man of wealth Ruskin referred to contemptuously as the Baron of the Bags—money bags, that is. The businessman tends to accept this caricature of himself and his function, vainly trying to conceal it under a false, and somewhat ridiculous image.

If only business radiated some of the magic that invests royalty, or reflected some of the panache of the military! So dreams the man of business, who then finds wish fulfillment, of sorts, in assuming titles such as The Spaghetti King, The Chewing Gum Czar, The Fast Food Tycoon, and so on. Captains of Industry meet with their Lieutenants at the Admirals' Club to work out the strategy and tactics of the next "trade war." Inside the plant or in the board room our tiger is referred to with affectionate dread as The Boss, or The Old Man.

The Function of the Businessman Is to Serve the Customer

There is an inversion of values here, as well as a gross misunderstanding of the role of the businessman in society, a misunderstanding on the part of the businessman himself, which is shared by friends and enemies alike. Kings and dukes in the precapitalistic ages did not produce or earn the wealth they enjoyed; they seized the wealth produced by others. They lived by "The good old rule, The simple plan, That they should take who have the power, And they should keep who can."

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Royalty and the nobility exercised vital functions at the time, but work was not one of them; and the same might be said of the military. As necessary as a military establishment is for the defense of the nation, is it not obvious that military action results in the consumption and destruction of wealth? The businessman appeared on the scene as a different breed altogether; the businessman *earns* whatever wealth he obtains, and the method he employs increases the well-being of others. He is on an ethical par, to say the very least, with those who rule and those who fight!

"I take what I want," said Frederick the Great; "I can always get some pedant to justify my actions." The thief also takes what he wants, and so does the pirate and the racketeer. The king, the crook, the buccaneer and the gangster pursue their naked self-interest directly, operating in terms of a ruthless egoistic hedonism. Bemused by these glamorous figures, apologists for capitalism have explained the motivation of the businessman in terms of the same egoistic hedonism. With friends like this the businessman doesn't need enemies!

It is a truism to say that everyone tries to improve his circumstances, to upgrade his level of well-being. The question is How? Pursuing one's self-interest directly, at the expense of other people, is the way of the powerful and the crooked. Serving one's self indirectly by advancing the well-being of other people is the operational principle of the free market economy.

To illustrate: the successful buggy manufacturer with a deep personal commitment to this means of transport and pride in his product finds business falling off. Consumer taste is gravitating toward the new-fangled horseless carriage. Our entrepreneur, if he wants to stay in business, must swallow his pride and put his time, talents and capital at the service of those who want automobiles. The ruler of this tiny industrial empire, as he fancies himself, surrenders, and agrees to put himself at the disposal of consumers. Everyone's welfare is upgraded in the only way possible for this to occur.

The Good Society

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and

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foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth." (*The Good Society,* pp. 193–4.)

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division of labor economy can flourish.

There is a moral law whose mandates are binding on every one of us. The moral law within each person—his individual conscience—instructs us to "injure no man." It obligates us to work for justice and fair play in human affairs; to speak the truth in charity, keep our word and fulfill our contracts. This ancient code forbids murder, assault, theft and covetousness. These are the most important items in any ethical code, so universal as to seem part of human nature itself, and so compelling that most of us acknowledge them as binding even while we fail to obey them.

There is not a separate ethic or set of moral principles trimmed or adapted to this group or that in society, even though our common speech seems to suggest this. It is improper, strictly speaking, to talk about "legal ethics," "medical ethics," "business ethics," or the like. Lawyers, doctors, businessmen are judged by the same moral law that applies to all the rest of us. Free market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions. Only when a government grant of privilege is obtained is a moral principle violated. But when this happens the violator is no longer a businessman.

IDEAS ON LIBERTY

Fred De Armond

A MAN OF ACTION, intent on performance which is both successful and ethical, must strive to see that his actions are consistent with the principles he professes. To fail in that respect is the worst form of inconstancy. "What is right?" is always a relevant question.

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John Jefferson Davis

JAPAN'S "FIFTH GENERATION" COMPUTERS: THREAT TO THE FREE MARKET?

"In my opinion, your contemplated conduct is an unequivocal combination in violation of the antitrust laws of the United States."[1] This was the response of San Francisco antitrust lawyer Joseph M. Alioto to the formation of the Microelectronics and Computer Technology Corporation ("MCC"), a consortium of twelve major high-tech corporations including Honeywell, Motorola, RCA, and Control Data. These American corporations formed the new group in order to pool their research resources for a more effective response to the challenge of the Japanese "Fifth Generation" computer initiative.

Japanese leaders in government, industry, and the universities have mapped out a master plan for the next decade to catapult Japan into the forefront of the world economy of the 1990s. The Japanese plan calls for a $100 million, eight-year effort to capture the world lead in the field of "supercomputers," the incredibly fast computers such as the Cray-1 manufactured by Cray Research of Minneapolis, capable of executing 100 million instructions per second. These super-fast machines perform vital functions in weather forecasting, industrial design, and in defense applications.

The Japanese also plan to spend $500 million in a ten-year effort to achieve world dominance in the strategic area of artificial intelligence, one of the most exciting fields in computer research today.

The Japanese have seen that in the new Information Age economy of the 1980s and 1990s, computer science holds the key to dominance in the world economy. American

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computer scientists such as Professor Edward Feigenbaum of Stanford are warning that unless decisive action is taken soon, America could easily find itself as knowledge-dependent on Japan in the 1990s as it was oil-dependent on the Middle East during the 1970s.[2]

Japanese Lead in Marketing of 64K RAM Chips

The United States has already lost a preliminary skirmish in the global computer wars. The Japanese have now captured 70 per cent of the world market in 64K Random Access Memory chips, the microprocessing devices which are at the heart of the modern microcomputer. These chips were invented in America, by engineers at the Intel Corporation in California, and opened up an entire new world of information processing. They serve as the "brains" of countless devices ranging from microwave ovens to personal computers. With real justification, these silicon chips have been called the "crude oil of the 1980s"—so much new wealth and employment have they created.

Japanese leaders in industry and government were quick to respond to the new economic opportunities created by the microprocessing chip. The Japanese government provided $300 million for research and development, worked out a cooperative arrangement among five companies, and Japan proceeded to achieve dominance in the world market for 64K computer chips.[3] Their chips had done to American industry what their digital watches had done to the Swiss watch industry.

Is it really the case that the Japanese "Fifth Generation" challenge represents a grave threat not only to the American economy in the 1980s and 1990s, but to the very viability of classical free-market economics itself? How could this be the case? The dilemma arises because there are voices which are now calling for *massive government initiative* as the only way for America to successfully respond to the Japanese computer threat: Only if government takes the initiative, coordinates the planning, and sets the goals, and provides massive financing, can America's economic survival be assured.

According to Prof. Feigenbaum, "America needs a national plan of action, a kind of space shuttle program for the knowledge systems of the future."[4] Are we really left with the dilemma of a choice between the classical free market and economic ruin, or massive government intervention and economic survival? The new realities of the Information Age do challenge classical free market principles, but before it can be seen how this threat has been exaggerated, it is important to appreciate more fully the new developments

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that are on the horizon in the "Fifth Generation" of computers.

The Promise of the Fifth Generation

The phrase "Fifth Generation" refers to stages in the evolution of computer technology. The first generation of computers was based on vacuum tube technology; the second, on the transistor; the third on the integrated circuit, which combined many transistors on a single circuit board; the fourth, on microprocessor chips with large-scale integration (LSI) and very large-scale integration (VLSI) of the components. Each "generation" saw an increase in speed and computing power, together with a reduction in size and cost.

Computers that in 1960 filled entire rooms and could only be afforded by government, industry and universities can now be matched by desk-top and portable models that are affordable to the consumer. Between the years 1946 and 1960, the number of computers increased from zero to ten thousand; between 1960 and 1980, the number of computers exploded from ten thousand to *ten million,* and continues to expand at a phenomenal rate.[5]

The "Fifth Generation" will see the development of *artificial intelligence,* "computers that think." This means not merely another quantitative improvement in computing technology, with all the economic implications which that has entailed, but a new *qualitative* leap for human civilization and the world economy.

Already computer scientists have developed such "expert systems" which mimic the reasoning processes of experts in medicine and engineering. The *Caduceus* system developed by scientists at the University of Pittsburgh assists doctors in performing intricate diagnoses in internal medicine, at times with a degree of accuracy surpassing even the most experienced human diagnosticians. The *Dart* system developed at Stanford can diagnose computer system malfunctions in the field, thus saving costly "down time." The *Programmer's Apprentice* developed at M.I.T. assists human operators in the design and debugging of complex computer programs.[6]

These "expert systems," and many others like them which are already in use or presently under development, combine vast stores of relevant information, together with detailed programs which mimic the reasoning processes used by experts in the field. These programs are constructed by "knowledge engineers" who interview the experts, "pick their brains" for their valuable knowledge, and translate this into a form that the computer scientist can use in writing a program that emulates

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the reasoning of the human expert.

The development of "computers that think"—in contrast to machines that merely respond to preprogrammed instructions—has vast implications for the world economy. It scarcely seems an exaggeration to predict that the widespread diffusion of artificial intelligence will have an impact on human society comparable to, if not greater than, the invention of the automobile or the printing press.

The Industrial Revolution magnified the power of human muscle with the introduction of the steam engine. The Fifth Generation will mean a new post-industrial revolution, where the power of the *human mind* itself will be magnified by the new computer technology. Just as the steam engine raised the standard of living in the industrialized nations, so the new generation of "thinking computers" promises a new plateau of economic well-being for those nations that are alert enough to seize the opportunities.

The Fifth Generation: No Real Threat to the Free Market

While the Japanese Fifth Generation project represents a real challenge to American leadership in the world economy, it by no means signals the end of classical free-market principles. Such alarmist predictions represent a misreading of the true situation, as well as a failure to recognize the true resilience and creativity of the American system.

The research and marketing strategies of the Intel Corporation are a good case in point. For the last several years the California computer-chip firm has been reeling under the impact of a recession and the fierce competition from Japanese manufacturers. Having lost the battle for the 64K chip, Intel is not giving up and acquiescing to a place of permanent inferiority in the world of microelectronics. Even though its 1982 profits were down 25 per cent from the previous year, Intel is planning to invest $130 million in research and development and $150 million in new plants and equipment in an effort to regain its competitive edge.[7] According to some estimates, Intel has succeeded in capturing 70 per cent of the market in the new 16-bit chip technology—a design that can process information more quickly than the eight-bit designs that characterize most personal computers in use today.

According to industry sources, IBM, the giant of the world computer industry, has quietly formed a team of 25 scientists to counter the Japanese Fifth Generation project.[8] Last year IBM's gross income reached a record $34 billion dollars, and profits surged more than 20 per cent. After the Justice Department dropped a thirteen-year long antitrust suit in January of 1982, IBM executives

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began to map out an aggressive new strategy for leadership in every field of computer technology: biomedical systems, factory automation, educational systems, telecommunications, and artificial intelligence. As of 1982 IBM had increased its research and development budget to a massive $2.6 billion—numbers which far exceed the Japanese efforts. Even without government help, "Big Blue," as IBM is known in the trade, would represent by itself a formidable threat to the Japanese plan. Any predictions of assured Japanese dominance would at this point be quite premature.

Suggestions that the government-subsidized Japanese computer challenge make free-market principles obsolete also overlook the new context of the *globalized* economy. International trade is nothing new, of course, but the growing extent of the interdependence and interpenetration of national economies does appear to be a genuinely new factor in the world scene. Ford's new car, the Escort, is assembled in the United States, Britain, and Germany from parts manufactured in Japan, Brazil, Britain, Spain, and Italy. Volkswagen provides the engines for the Dodge Omni and Horizon cars, and Mitsubishi of Japan the engines for the Dodge Colt, the Plymouth Champ, the Dodge Challenger, and the Plymouth Sapporo. Volkswagen builds commercial vehicles with parts made in Brazil and Mexico.[9]

The point here is that in the new *globalized* economy, many of the antitrust laws dating all the way back to the nineteenth century, and which focused on the problems of a *national* economy, need to be rethought in light of the new economic realities. A cooperative research venture such as the Microelectronics and Computer Technology Corporation does not eliminate competition; it is merely a rational response to the realities of *international competition.*

As long as government does not unfairly favor or subsidize one corporation over another, such cooperative research ventures should be encouraged by government in order to keep American industry competitive. Neither is *free cooperation* between government, industry, and the universities inconsistent with free-market principles, so long as government does not favor or exclude some corporations at the expense of others. Such cooperation is essential in areas such as computer technology which affect both the United States' economic future and its national security.

The Future Is Bright

The free-market tradition has nothing to fear from the revolutionary advances that are on the horizon in computer technology. The computer has opened a new frontier for

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entrepreneurship and personal creativity that promises to surpass the discovery of petroleum and the invention of the automobile in its potential for creating new forms of employment and higher standards of living for all.

Sirjang Tandon of India worked in restaurants as a busboy in order to pay for his American engineering education. After working for IBM and Memorex, Tandon decided to start his own computer-components business in his garage. Today the Tandon Corporation is one of the leading manufacturers of disk drives, the vital components which store information in a computer. The net worth of the Tandon Corporation is $1.5 billion, with sales projected at $270 million this year. Says Tandon, now an American citizen, "Every time I travel around the world, I like this country better."[10]

On the global level, the new computer technology presents a test of strength not merely of Japan vs. the United States, but even more broadly, a crucial test of controlled, socialistic economies and economies where the private sector remains the prime mover. Analysts such as Professor William Griffith of M.I.T. predict that in this race the Soviet Union will fall further and further behind the United States and Japan. The Soviet system is a system without free competition and a rational pricing system, and one which places a premium on political orthodoxy rather than technological efficiency. Consequently, the Soviet system is really an "anti-management system," according to Griffith, "doomed to finish last."[11]

Rather than being a fatal threat to the free market system, the Fifth Generation of computer technology will, in the long run, demonstrate the superiority of the initiative, risk taking, and creativity characteristic of a free economy. The benefits will not be automatic, however; the United States, if it is to maintain its leadership in the global economy, must rise to this new challenge as it has met the challenges of the past.

—FOOTNOTES—

[1]"The Race to Build a Supercomputer," *Newsweek*, July 4, 1983, p. 61.

[2]Edward A. Feigenbaum and Pamela McCorduck, *The Fifth Generation: Artificial Intelligence and Japan's Computer Challenge to the World* (Reading, Mass.: Addison-Wesley, 1983), pp. 2, 3 and jacket.

[3]Bernard J. O'Keefe, "We Did It to Ourselves," *Boston Globe*, July 5, 1983, p. 44.

[4]Feigenbaum, *op. cit.*, p. 3.

[5]*The Futurist*, February 1983, p. 11.

[6]Feigenbaum, *op. cit.*, pp. 244–50.

[7]Marilyn Chase, "The Chip Race," *Wall Street Journal*, February 4, 1983, pp. 1, 13.

[8]"The Giant Takes Command," *Newsweek*, July 11, 1983, p. 57.

[9]John Naisbitt, *Megatrends* (New York: Warner Books, 1982), p. 65.

[10]"Still the Land of Opportunity?" *U.S. News & World Report*, July 4, 1983, pp. 37, 38.

[11]William E. Griffith, "High-tech Charging Onto World Scene," *Boston Globe*, June 27, 1983, p. 2.

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Barry J. Schwartz

Can Capitalism Guarantee Right Answers?

ARGUMENTS for government controls often begin with a series of practical-sounding questions designed to make freedom appear impractical and utopian in light of impending crises. Prior to each new regulation by the state, questions are posed by professors, journalists, legislators, and interest-group spokesmen. "How can our free market system solve this particular problem? Might not government action be more expedient in this case?"

In essence, the interventionists seize upon a pressing problem for which there seems to be an obvious right answer, at least in the eyes of a vocal minority. For example, most reasonable people will agree that energy conservation is wise, that killing whales is inhumane, and that racial discrimination is illogical and cruel. And so we agree.

Now, they say, the free market carries no guarantees of infallibility. Competition does not always give the correct answers, at least not as quickly as can be gotten by direct state action. While the government is not creative, it does offer one advantage: It is definite. The state has arrived at a good plan of action, recommended by experts, and backed by public consensus. Why must we leave this problem in the uncertain realm of the free market?

To put the issue more broadly, take any problem where there exists some state plan, and you can ask: "Can the free market promise a better answer, or even one that is correct?" The same applies to any scientific controversy where there are funds for research available from government agencies. The challenge is: "Can capitalism solve problems well enough and soon enough?"

There is no correct answer to this question, because the question itself is invalid.

It does no service to the concept of

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freedom to argue that capitalism solves problems more efficiently than does socialism. The whole argument assumes a collectivist premise: that problems are solved by social systems rather than by individuals.

Discoveries and solutions to problems are accomplished by individuals, not by social systems. Political-economic systems merely define the conditions under which creative individuals are either rewarded or brutalized for their efforts.

Reason Is Released

Capitalism is the economic expression of individual rights. When force is removed from the marketplace of ideas and production, the reasoning power of the individual is unchained. Since individual reasoning power is the only kind in existence, the result of establishing individual rights is an explosion of time-saving, life-saving inventions recognized later on as wealth.

In any civilization, whether under primitive or advanced conditions, the power of reason belongs to the individual, and the seeds of progress are planted in the privacy of a thinking mind. Progress has never worked by command, nor could it be predicted in detail. The great advances of the 19th and 20th centuries under near-capitalism were made possible by scientists and industrialists in pursuit of their own interests. The Edisons, Carnegies, Rockefellers, and Einsteins were not brought forth by government edict in recognition of pressing national problems. There was no way to predict, for example, prior to John D. Rockefeller, that the development of petroleum exploration and refining would ultimately be the salvation of the remaining whale population; or that the inventions of the transistor and computer would constitute a means of energy conservation, and contribute to an improvement in air quality by saving fuel and transportation costs.

Creative work requires tolerance for error and the chance to succeed in the competition of the new and untried against the old, the accepted, and the routine. It is no accident that America, the land of individual rights, is also the land of inventors and industrialists: creative and productive men from around the world who were Americans by choice. Consider the disproportionate numbers of American Nobel laureates, men with surnames of every nationality, who are refugees or second- or third-generation Americans.

Capitalism Nourishes Genius

Capitalism was not asked to solve the problems that interested these thinkers and producers. But, with the guarantee of individual rights, force was kept from interfering with their creativity. Capitalism does not solve problems. It nourishes genius.

It doesn't take technological hind-

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sight to debunk the interventionists' mistrust of competition. The impulse to turn to government authorities in defense of "right answers" did not originate in the mixed economy of the 20th century. Thomas Jefferson saw the threat, and wrote about it with his accustomed clarity and fire, "The error seems not sufficiently eradicated, that the operations of the mind, as well as the acts of the body, are subject to the coercion of the laws."[1]

Against the statists' mistrust of freedom in the realm of religious beliefs, Jefferson wrote: "Reason and free enquiry are the only effectual agents against error. Give a loose to them, they will support the true religion, by bringing every false one to their tribunal, to the test of their investigation."

What Jefferson saw in the realm of personal philosophy he knew to apply to the realm of scientific controversy: "Government is just as infallible too when it fixes systems in physics. Galileo was sent to the inquisition for affirming that the earth was a sphere: the government had declared it to be as flat as a trencher, and Galileo was obliged to abjure his error. This error however at length prevailed, the earth became a globe, and Descartes declared it was whirled round its axis by a vortex. The government in which he lived was wise enough to see that this was no question of civil jurisdiction, or we should all have been involved by authority in vortices. In fact, the vortices have been exploded, and the Newtonian principle of gravitation is now more firmly established, on the basis of reason, than it would be were the government to step in and make it an article of necessary faith. Reason and experiment have been indulged, and error has fled before them."

And, in one classic sentence, Jefferson weighs force against reason: "It is error alone which needs the support of government. Truth can stand by itself."

Confidence in the free competition of ideas is not blind faith about the ability of the market to solve any particular crisis. It is instead a certainty about the fundamental conditions needed to protect creative and productive minds from brutality and confiscation.

Hobbes Feared Freedom

Far from being an expression of "scientific" social planning, the statists' mistrust of the marketplace is much more in the spirit of Thomas Hobbes, the 17th century statist, who feared that freedom would produce chaos. Hobbes recommended a social system which would invest a king with complete authority over the lives of the people, not because the

[1]All quotes are from Jefferson's *Notes on the State of Virginia*, first published in 1787 (New York: W. W. Norton, Co. 1954).

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king would be wise, but because his actions would be definite and predictable. Hobbes, being a skeptic, did not believe that the "unaided power of reason" could function as a basis for individual action or for benevolent cooperation. Mistrust of reason implied mistrust of the individual. Society was, for Hobbes, in the person of the king, more reliable than the mass of individual people.

Naturally, today's interventionists would chafe at any comparison with Hobbes, the totalitarian and skeptic. They do not champion skepticism, they advocate science. And they do not want to establish a king: they advocate only a mixed economy, with the greatest latitude possible for freedom. Each intervention by government is to be made only in those areas where they see the marketplace as having left a gap, in the form of an important and unsolved problem. It is only these gaps which the interventionists would fill with the expedient of government action.

The Consequences of Force

A broader view would show them that all of the unsolved problems of man fit into these gaps. Once force is preferred to competition, the implications are universal. The results are only a matter of time. It is logically inconsistent to advocate the use of force in one area of production and thought, and to demand that it be kept from other such areas. If government coercion can be justified in banking, why not in publishing?

Those who favor the mixed economy are less consistent than their neo-Hobbesian contemporaries, who rule over today's totalitarian states. These modern-day kings regard the individual as inconsequential and unworthy in the grand scheme of state action. The idea that individuals are made capable by the power of reason and cooperation is regarded a dangerous and fallacious bourgeois prejudice, to be eradicated by state censors. They must jealously guard all areas of thought against the intrusion of private initiative, especially in the presses and in the schools. They know, by experience, that there is no telling when one side of a free controversy will discover the idea of liberty.

Impatience with private competition of ideas in favor of government enforced solutions reveals a mistrust of reason and its sole proprietors: the individual citizens. If government controls are believed necessary to find answers to problems, then the individual's capacity of reason, persuasion, and competition has been judged to be incompetent. Then, the government must become the caretaker to all. There is no middle ground in this controversy: a mixture of freedom and statism is no more viable than a mixture of persuasion and coercion. Freedom is indivisible.

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Percy L. Greaves, Jr.

ON LABOR UNIONS

UNEMPLOYMENT can be a dreadful condition. The inability to find a needed job is a heart-rending experience for anyone. For those with young children to feed and clothe, it is a terrifying predicament. It gnaws at and destroys the spirit and self-confidence of even the strongest souls. With nerves on edge, family harmony too often flies out the window.

In addition to the deep mental anguish, there are also physical and financial losses. An adult's health, as well as his spirit, may suffer irreparably. A child's growth may be permanently stunted. The loss of the family car can reduce both the hope and the possibility of getting another job. The foreclosure of a mortgage on the family home can liquidate the savings of a lifetime. In short, a prolonged period of unemployment can wreck a person's life.

Then, too, the unemployed are not the only sufferers. With millions of able-bodied persons searching for a source of income or twiddling their thumbs in frustrated idleness, the potential quantity of goods and services available in the market place is greatly reduced. This means higher prices and lower living standards for everyone. Government programs to provide a floor for the unemployed also mean higher taxes and/or still higher prices as a result of the political creation and distribution of unearned dollars. Actually, mass unemployment and its aftermath is probably the greatest single driving

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force behind our politically sponsored inflation.

So solving the problem of mass unemployment is a major task of our time. Before we can solve it, we must locate the root cause. There was no unemployment at Plymouth or Jamestown. There was no mass unemployment during this country's first hundred years of existence. What is different today?

Not a Free Market

One major difference is that there is no longer a free market in jobs and wage rates. There are now laws on the statute books that grant certain groups of workers the privilege of demanding and getting higher wages than they could and would earn in a free market. The unemployed are no longer permitted to compete and thus reduce the higher than free market wage rates of the privileged few. So those shut out from the higher paying jobs must compete for work and drive down the wage rates in unorganized occupations. Then, they face the floor decreed by minimum wage laws which often prevent employment at these reduced market wage rates.

Employers cannot long pay workers the legal minimum wage rate if consumers cannot or will not buy the resulting goods and services at prices that cover costs. As a result, millions are now legally prevented from taking either high paying jobs or low paying jobs. The free market in jobs and wage rates has been legally destroyed.

It should thus be evident that the remedy for mass unemployment is to repeal the laws which prevent people from competing for the higher paying jobs or taking the lower paying jobs—lower paying, until workers acquire the skill and experience needed to climb the ladder to higher incomes.

Organized Against Whom? The Labor Union in America by Clarence B. Carson. Published by Western Goals, Alexandria, Virginia, 1983. 114 pages, $5.00 paper. The book is also available from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533

Historian Clarence B. Carson has written a small book, *Organized Against Whom?*, which tells some of the story of how we strayed from the free market path for jobs and wage rates. It is an ugly story vividly describing the coercion and violence employed by many in the labor union movement in their effort to convince the electorate that they are entitled to special privileges and immunities. They have successfully convinced many that labor unions are

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the protectors of downtrodden poorly paid workers who are supposedly at the mercy of greedy all-powerful employers who rob them of their rightful earnings.

Today, thanks to socialist and labor union propaganda, there is little understanding of the fact that employers are merely middlemen operating in a heavily taxed and very competitive market place. Actually, employers have very little to say about wage rates. Employers are compelled by market forces to pay employees in accordance with the value that consumers place on the production of their marginal employees, the last hired. If employers pay higher wage rates than they get back from consumers, they suffer losses and sooner or later cease to be employers. If employers seek to increase their profits by paying lower than market wage rates, competitors soon bid away their employees. Thus, the free market competition of employers is the salvation of workers looking for higher wages.

The Voluntary Way

In a free society, labor unions, like other organizations, would be voluntary groups trying to advance the interests of their members. They would abide by the laws and seek no special privileges or immunities. Unions that offered employers the most competent and reliable workers, who were willing to work for competitive free market wage rates, would grow and prosper. Labor unions that offered incompetent workers, insisted on featherbedding, or other unnecessary or costly conditions and demanded higher wage rates than competent non-union members would willingly accept would soon fade away. Certainly, in a free society no group should or would resort to violence, coercion or special privileges to obtain what it seeks.

The free market operates according to the Golden Rule. The higher values one contributes to the market place, as valued by consumers, the more one receives in return. Free market operations are always voluntary transactions by which all parties exchange something they have for something on which they place a higher value. Goods and services thus continually move to persons who place a higher value on them. Barring human error or the use of force or fraud, all parties gain from all such transactions. The prevention of the use of force or fraud is a prime function of government.

Dr. Carson tells us how many labor unions now operate, with the help of laws and court decisions, coercing employers to join with them to grant them a monopoly of certain jobs. Such unions are thus able to shut out the competition of competent applicants for those jobs. Then, by demanding still higher wage rates, some unions

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further reduce production and employment by pricing some of their own members, those with low seniority, out of their high paying jobs. In short, labor unionism, as now practiced, is not only the enemy of employers, investors and consumers, but it is primarily the enemy of competent job seekers who, as a result of union action, must remain underpaid or unemployed.

Unions Gain Monopoly Status

Today, we live in an economy of political privileges with all kinds of lobbies trying to get for their members what they consider their "fair share" of the political largesse. Unquestionably, labor unions have been one of the first and strongest of these political pressure groups. As Dr. Carson narrates, they won their first great political victory in 1914, when they persuaded Congress to decree: "That the labor of a human being is not a commodity or article of commerce." Congress has great powers, but it did not by this legislation alter the fact that labor is one of the factors of production traded in the market place.

With this law on the books, union leaders waged a propaganda campaign demanding that government help them raise wage rates above those of the free market, which they maintain, falsely, are set too low by the whims of all-powerful employers. Their propaganda campaign was accompanied with strikes and violence that disturbed the entire nation and contributed to the mass unemployment of the depression period that started in 1929.

As a result of this propaganda and the show of force, Congress and the courts were persuaded in the 1930s to grant these labor union advocates of self-serving coercion most of the special privileges and immunities they sought. Now, we have the results. Employers as a breed are becoming scarce. So are investors willing to place their savings in new or expanded production facilities. The combined result is that the ranks of the unemployed are now reckoned in the millions. Mass unemployment has even caught up with many of the legally privileged union members. The economic laws of the market cannot long be circumvented without eventually producing undesirable consequences.

As Dr. Carson tells us, our constitutionally chosen government has empowered the labor unions to accomplish all this. He may be a bit harder on the unions than they deserve. There can be no excuse for their resort to violence and coercion. However, they can hardly be blamed for taking advantage of the special privileges and immunities from prosecution that Congress and the courts have conferred on them. In taking advantage of existing laws, they are doing no more than many

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college kids, lots of old folks and millions of persons in between. Of course, that does not make it right or permanently possible. Neither Congress nor the courts have any power to repeal the laws of economics. They could make us all millionaires, but only by destroying the value of the dollar. A price must be paid for every interference with the inexorable laws of economics.

A Story of Special Privilege

It would seem we are fast losing the freedom for which our Founding Fathers pledged their lives, their fortunes and their sacred honor. As Dr. Carson writes: "The thrust of the American Revolution was in the direction of removing special privileges and legal supports from groups and organizations." For decades now the courts have supported Congressional grants of "special privileges and legal supports" on a wholesale basis. As Carson writes, this has been "a fundamental departure from the principles of good government," not to mention the principles of sound economics.

Our government has permitted, encouraged and even underwritten the power of labor unions to coerce all other elements of our society to bend to their will. This small book tells much of the story of how this came about. In doing so, it exposes many of the errors in the popular fallacies, the acceptance of which has permitted labor unions to attain their present position of power. This story is one with which every American should be familiar.

The book is not without its faults and contradictions. Some are only the result of an unfortunate choice of words. For example, lawlessness is referred to as the "state of nature." Or, "An ancient union complaint could certainly be disposed of if governments neither recognized, gave status to, taxed, or otherwise noticed private organizations, except as they might disturb the peace." That would mean no legal recognition or taxation of corporations or any other private organizations. In effect, it would repeal the First Amendment. For no press or religious organizations would have any status or right to be recognized in court. Or when Carson writes, "Congress is empowered to make laws regulating commerce." The Constitution carefully limited that power to "interstate commerce," and that is what it meant until the Supreme Court, in 1937, ignored the key word "interstate" in a 5 to 4 decision which upheld the National Labor Relations Act, popularly known as the Wagner Act.

There are some unfortunate contradictions in the book, as when we read, "Let me confess at the outset that I do not know what labor unions are." Then the author proceeds in chapter after chapter to tell what they are and what they do. At an-

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other point we read, "Violence is not essential to unionism." That is true, of course, if they operate within the rules and ethics of a free society. However, the thesis of this book is that labor unions are organized against society in general and against other workers in particular. As the author describes so well, they have for years pursued their policies by resorting to violence and coercion. For decades now the government has given its support to their anti-social actions—actions that impede not only full employment and prosperity but also the legitimate activities of many governmental entities.

Criticism might be made of such statements about labor unions as, "They are not economic organizations," and "Nor is the labor union primarily a political organization." If economics is the science of human actions to attain selected goals, then attaining union goals by boycotts, strikes and stopping others from working are certainly economic actions. This book presents many incidents illustrating how labor unions have used both economic and political means to attain their present position of power.

Perhaps this reviewer's greatest disagreement is with the author's assertion that "Labor unions are religious, or religion-like organizations and, as I say, once this is grasped they come into focus. Their immediate goals are ethical in character; their ultimate goals are religious. Their economic claims are ethical in character." The latter might be so if they sought their legitimate ends by ethical means. However, there is nothing ethical or religious about the use of coercion, be it legal or illegal.

As for labor unions being religious, many economically ignorant labor union members and Congressmen undoubtedly swallow the propaganda and follow the wishes of the union bosses with a "religious" faith and fervor. We may live "in the age of the divine right of majorities," as the author rightly states, but the fact that labor unions are "supported by compulsory tithes and taxes" does not make them religious or "established churches."

Religion pertains to the supernatural—metaphysics. Except for the fact that reason tells us there must have been a Creator, religions deal with matters which cannot be logically proved or disproved. Religions are concerned with the irrational aspects of human life. Consequently, honest people, who are both sane and intelligent, can and do differ on religious matters. The aims and actions of labor unions are certainly neither heavenly nor irrational. They are earthy and concrete. Labor unions seek more for their members. There is nothing wrong with that objective if they pursued

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it by ethical means—by voluntary agreements for the mutual benefit of all parties. However, as Dr. Carson has so vividly pointed out, our present problems have arisen from the use of violence, coercion and special privileges which are neither ethical nor particularly metaphysical.

The mass media, which are largely manned and edited by labor union members, constantly present a one-sided favorable picture of union policies, privileges and activities. The public needs to know more about the antisocial effects of the prerogatives exercised by labor unions. This book strips away much of the veneer that covers the unfortunate deification of labor union activities, activities which, if committed by individuals or other organizations, would be properly labeled as crimes. We need more books which, like this one, expose the root cause of mass unemployment, a major blight not only on economic peace and prosperity but also on the pursuit of human happiness.

IDEAS ON LIBERTY

The Labor Monopoly

Do employers in fact possess monopsony power in the labor markets in which they operate? Certainly they would like to do so and often attempt to do so. But I see nothing in the history of wage rates in this country and in comparisons of union and nonunion industry experience that would lead me to conclude that employers in this country do now or have ever exercised significant monopsony power in the labor markets. The weakness of the individual worker in obtaining "fair" wages is one of the most durable and widely-believed myths in the economic folklore of the modern world. Even my hero, Adam Smith, gave it some standing, though it may have possessed some greater validity in his day than in ours. Today's worker, with his far greater physical and psychological mobility, need hardly sit still to be exploited, and a solid core of movable workers will protect even those who have little or no mobility, just as I am protected in buying television sets by those who are shrewd enough to know that it is not magic but easily understood processes which cause them to work.

BENJAMIN A. ROGGE

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A Stroll with William James

A Stroll with William James is a thoroughly misleading title for Jacques Barzun's voluminous book about the psychologist and philosopher whom Whitehead called "that adorable genius" (Harper and Row, 344 pp., $19.95). The word "stroll" connotes something light and airy, but this study of the works and influence of the American thinker who picked the word "pragmatism" (from the Greek word "pragma," meaning "the thing done") to describe the test of truth is more like a safari, with beaters whacking the circumambient bush in eight or nine different directions to track down all manner of fascinating quarry.

The book begins simply, with a bit about the man. But Barzun doesn't tarry very long with the bare facts about William James's most cosmopolitan upbringing. As the son of Henry James Sr., the Swedenborgian philosopher, and brother to the younger Henry, the novelist who worshipped all things English, William grew up on a "transatlantic shuttle." This "typically American philosopher," as he is usually called, was learned in four languages. At one point he decided he wanted to be a second Delacroix, his favorite French painter. He drew and he drew as a child, and after perfecting his French in Geneva and picking up a reading knowledge of Italian he joined John La Farge as an art apprentice in William Morris Hunt's studio in Newport, Rhode Island.

One year's painting produced work that was far from amateurish, but once William was convinced that he was no genius in oils he switched to science at Harvard preparatory to medical school. There was a blessed

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interlude in his medical training when he hiked off to the Brazilian jungle to study the fauna of the Amazon with the naturalist Louis Agassiz. Barzun treats all this background in hop-skip-jump fashion, and is then on to a most intensive study of James's pioneer work in psychology. Reading everything that follows is a dense but fascinating and rewarding experience. What Barzun has done is to provide us with a treatise on the origins of the modern mind, using James's books as the guiding line to an understanding of every last current of thought that has taken us out of the Victorian world into the permissive present.

Pragmatic Pluralism

Barzun doesn't admire many manifestations of the world that has been built on the shifting sands of pragmatic choice, but he blames our shortcomings—the collapse of our educational system, for example—on misguided disciples whose theories definitely do not stand up to any intelligent definition of what "works." As a psychologist James had first called attention to the stream of consciousness. He had, in his work on "radical empiricism," disposed of the "heart-and-mind dichotomy." The ancient quarrel of the nominalists and the realists had no meaning for him; in his world both the chair and the idea of the chair were equally parts of nature. In religion he was personally inclined to a vague form of Deism, but he cherished both the right and the will to believe. Though he was no Freudian, he explored the subconscious mind, hoping for disclosures that would tell him more about religion, genius and psychopathology. He was a pluralist for quite practical reasons in a world that had witnessed entirely too many atrocities stemming from monists who thought they had unique access to the truth.

Jamesian pluralism is well-adapted to democracy, which presupposes that no right balance can be struck between diversity and unifying authority by rule. As for pragmatism, he did not intend it as a philosophy in itself. He thought of "pragma" as providing an attitude that would test philosophies by their consequences. But consequences must have values to be useful to human beings, so we are led in a circle back to ideas of worth. What is immediately practical may have dangerous long-term consequences, and the "pragmatic" politician who confuses opportunism with statecraft is no real Jamesian.

The Educational Debacle

As an educator Barzun is particularly concerned with what has happened to our schools as a result of what he regards as a perversion of pragmatic or instrumentalist ideas. As a teacher James thought it was

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the pedagogue's job to "make the pupil ashamed of being scared at fractions." But the whole business of bringing "the softer pedagogies" into the classroom took a stupid turn with the disciples of John Dewey. "Dewey's effect on schooling," says Barzun, "was to dethrone subject matter and replace it by techniques, the main one being aimed at teaching 'problem-solving' regardless of subject." On the surface this may appear to be a Jamesian idea. But the "adaptation to 'life' is not to be engineered in the classroom . . . contrived situations fool only the teachers and undermine their authority by silly make-believe."

Barzun doesn't even blame John Dewey for our educational debacle. Dewey's ideas, he says, "were exploited by ignorant and irresponsible people—veritable Smerdiakovs—and impressed upon children, parents, and teachers alike. Anything less 'pragmatic' than the ineffectiveness of public schooling would be hard to imagine." The permissive, "relaxed," "at-your-own-pace" needs of instruction have paradoxically resulted in a notably tense atmosphere. "James," says Barzun, "had no reason to imagine that schools would turn into places where death by violence, the drug habit, rape, and teen-age pregnancy would count as educational problems."

It is often said that William James was the "psychologist who wrote like a novelist," whereas his brother Henry was the "novelist who wrote like a psychologist." Whatever may be the truth of this cliche of criticism, it is certainly true that William James's prose is utterly unlike that of the usual professional in any of the social sciences. Barzun remarks on James's "sinewy, lucid, vernacular prose, full of its own varieties to match the varying subjects . . ." Many of James's best effects have passed into the common speech. We all know of the distinction between "tough-minded" and "tender-minded" people, but how many would be aware that the phrases were first used by James?

"The moral equivalent of war," a Jamesian elaboration, has been used by more than one politician, the most recent being Jimmy Carter, who trivialized it by applying it to lowering the thermostats in a time of oil shortage. James spoke of the stream of consciousness before novelists built literary careers out of it. It was Pierre Janet who coined the word subconscious, but it was James who provided the inspiration for it.

James loved concreteness. If our pedagogues had followed him stylistically, we would have been spared most of our "life adjustment" teachers college rot.

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